

A Work Project, presented as part of the requirements for the Award of a Masters Degree
in Management from NOVA – School of Business and Economics.

Internationalization Strategy of Água das Pedras to Dubai

Mafalda Vaz Pinto Furtado de Mendonça | 951

A Project carried out on the SME Competiveness:
Internationalization Strategy course,
under the supervision of:

Professor Sonia Dahab and Professor Filipe Castro Soeiro

January 7, 2013

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Executive Summary

Água das Pedras is the leading brand of sparkling water in Portugal, with 140 years of history, and detains the consumer preference in the domestic market. Pedras wants to explore growing opportunities leveraging its competitive advantage and experience. The work project presents an expansion to the Dubai market, a region where 1L of petrol is cheaper than 1L of bottled water¹. Entering in the premium segment, the foreign market promises a growing demand with high margins.

Key words: Bottle Water Industry, Água das Pedras, Sparkling Water, Dubai, Premium

¹ Price of 1L of Al Ain (leading bottled water brand) – Dh 1,96; Price of 1l of petrol - Dh1.72 (<http://www.emirates247.com/news/nations-with-cheapest-petrol-uae-not-on-list-2011-09-13-1.418104>).

Purpose and Methodology

This project was elaborated with the purpose to give Unicer an insight on a market opportunity to expand. The strategic guidelines for Unicer include internationalization in order to achieve growth, since it is not any longer possible to grow in the national market. Recently, after a product portfolio assessment, the company concluded that Pedras was the strongest product to internationalize. Água das Pedras has a production capacity of 30 million² liters available for exportation.

In order to build the internationalization plan a careful study about the internal market was developed to understand the company dynamics (see appendixes 1 to 18). After, the study focuses on analyzing the foreign market, and defines a strategy to enter.

Firm Description

Água das Pedras belongs to a larger company, Unicer, the biggest Portuguese beverage firm. The company is mostly owed by Portuguese capital, detained by Grupo VIACER³ (56%) and Carlsberg Group (44%) (appendix 2). Unicer's core activity is in the Beer and Bottled Water business. Besides those sectors, Unicer offers also a diverse range of brands in the sodas and wine segment, and is present in the production of malt and in the tourism business⁴ (appendix 3). Unicer has 1500 collaborators and 10 plants established in Portugal. In 2005, Pedras represented 18,2% in business volume and 28,5% of value for Unicer.ⁱ Inaugurated in 1994 and later modernized in 2008, certified by the ISO 9001: 2008, the industrial facility that produces Água das Pedras is located in Pedras Salgadas, attached to the natural spring. It employs about 100 workers, and has a production capacity of 70 million liters. The marketing and sales activities are integrated in the Unicer organizational structure.

² Volatile, depending on the rain flowrate.

³ Constituted by BPI, Arsopi and Violas.

⁴ Vidago and Pedras Salgadas Thermal Parks.

Internationalization Strategy

Pedras is present in 5 continents, in more than 25 countries. The international expansion happened not because of the firm's own initiative, but because there was a demand for its products abroad from Portuguese communities. Since the XX century, the port of Leixões is the loading quay from which Água das Pedras is shipped to former colonies and other international destinations such as England, Canada and Brazil.

Since 2008, the brand image aimed to target a trendy and sophisticated market, present in the cosmopolitan areas. The internationalization became part of the strategic agenda and in that year, Unicer promoted a partnership with Grupo Leche Pascual for the exclusive distribution of Pedras in Spain, enabling a significant increase in sales. In July 2012 Pedras started to be sold in the Brazilian market, during the first stage, in Rio de Janeiro and São Paulo. The selling points are restaurants, bars, grocery stores, and gourmet supermarkets, rather than massive distribution channelsⁱⁱ. Pedras was launched in the Brazilian market in São Paulo ExpoVinisⁱⁱⁱ, the biggest wine exhibition in Latin America. They established a partnership with a wine distributor company that will place Pedras in the desired selling point, alongside with their wine. The dissemination strategy will focus on developing initiatives close to gastronomy critics, sommeliers, winemakers and other restaurant experts. Tônica Mix, the agency responsible for the brand in Brazil, focus its communication on the added value that Pedras brings as a natural sparkling water to conquer the niche markets.

PESTLE analysis for UAE

Political: United Arab Emirates is constituted by seven emirates⁵ that in 1971^{iv} formed a federation and since then have been cooperating to establish a stable economic and political environment. Since the establishment of the Federation, the Supreme Council was created in order to legislate and elect a President and a Vice-President every 5 years.

⁵ Abu-Dhabi (the capital), Sharjah, Fujairah, Ajman, Ras-al-Khaiman, Umm-al-Quwain and Dubai.

However each Emirate has its own government, which manages the natural resources and regulates the commercial activity. The Makhtoum family has been leading Dubai and today the Sheikh Mohammed al Rashid al Makhtoum is the Prime Minister and also Vice President of UAE. His liberal visions and intention to transform Dubai in an economic and social progress center played a big role in the development. Nonetheless, during the last years little effort has been made in order to establish a democracy, having the present regime controlling news releases and not allowing private media operations. Historically the power and influences are concentrated in the family rulers. Political decisions have been made in order to create a market oriented economy with a well structured business environment, and not so restricted as the many western economies.^v The UAE maintains active diplomatic ties with 60 countries, mainly European and Asian ones. However the relations with Iran are tense, due to the nuclear agreement that US have made with UAE.

Economical: The economy had experienced a remarkable growth in the last years, since the discovery of oil in 1960s. Dubai is in the geographic center of the Middle East, which makes it a significant distribution hub. Despite the global economy downturn, the economy proved to be resilient and 3,5% GDP growth for 2012 is estimated in the UAE region. The UAE's GDP per capita is \$US \$48,800^{vi}, and is expected to rise.

The seven Emirates possess 10% of the worldwide oil resources and also huge resources of natural gas, which is the main source of UAE wealth. Given the decrease of the oil reserves, the government has been encouraging diversification strategies, included in Dubai's Strategic Plan 2015, and today 67% of the country income comes from non-oil related business.^{vii} The service sector is the major driver of the economy, including industries such as real estate, transportation, financial services, restaurants, hotels and construction^{viii} (appendix 19). The government had been making great investments in infrastructures and job creation, attracting private ventures. Commerce and tourism have grown to be major players in the booming economy.

Only about 15%^{ix} of the food requirements are locally produced due to the harsh climatic conditions. This creates an opportunity for company to import food products and beverages, due to the growing increase in foreign workforce and expansion of tourism. The imports of food items to the country experimented a quick growth in the last few years (appendix 20). In 2009, the countries with the highest import penetration were: China 12.9%; India 12.%; U.S. 8.6%; Germany 6.4% and Japan 6%^x.

Socialcultural: The total population is 5,3 million^{xi} people, with many different origins. Only about 19% are Emirates, 23% are Arab and Iranian. The majority, 50%, are immigrants came from South Asia (India, Pakistan and the Philippines) mostly to work on construction due to the liberalized labor policies. The rest are well-educated westerners from Europe and the U.S., coming to UAE due to the opportunities that the booming economy poses. The population increase had one of the highest growing rates in the world, 10.68^{xii} per cent during 2000-2010, mainly caused by the influx of foreigners because of the economy prosperity, rate that is expected to be maintained. Particularly in Dubai, in 2012 the total population is 2 million, where 76% are men, a large percentage explained by the expatriates without their families. Yet there are 3 million people per day in Dubai, including tourists and people who work in Dubai but live abroad^{xiii}.

Although English is the business world language, Arabic is the national language and the main religion is Islam. Even though rooted in the Middle East traditions, UAE citizens live a western cosmopolitan lifestyle with a very high standard of living, sustained by their wealth which has continuously increased over time. The high society is very materialistic, spending great amounts of money. The foreigners that come to work in well-paying positions share the same lifestyle. The international exposure of visitors and the multi-ethnic resident community have developed a sophisticated and innovative food culture. Every type of food is available, and in the region are located the finest restaurants in the Middle East^{xiv}. Recently, famous chefs like Gordon Ramsay and Gary

Rhodes launched very fashionable and prestigious restaurants. The environment is centered in entertainment, and there are many new attractions every year.

The business environment is dominated by the Arab culture, but nevertheless there are many foreign companies that highly influenced in the 'westernization' process. There are some differences in negotiation, like the time that is taken in order to establish an agreement. It can take several meetings and is important to constantly show a high level of commitment and establish a friendship and trust relation before closing business.^{xv}

Technological: There is a strong telecommunication network, which attract IT entrants and caused a rapid development^{xvi}. The telecom market experimented a quick growth since its privatization, and the mobile penetration rate is more than 212 mobiles for 100 people^{xvii}. Still the education offer in the field of science is inadequate to meet demand.

Environmental: The ecological procedures are integrated in the Environment Impact Assessment⁶ enhancing the concerns with the sustainable development and environmental conservation. However CO₂ emissions have been increasing over the years due to the rapid development: road traffic and manufacturing and petroleum industries. UAE consumption per capita is 500 liters of water per day, nearly 82% above the global average^{xviii}, and it is expected to double in 2013. However, the water resources per person are the lowest in the Middle East. Two thirds of the water comes from ground resources, while the rest is filtered in destinations plants. An advance wastewater treatment plant was inaugurated in order to recycle the water waste to industrial use.

Legal: UAE is one of the only Free Taxes Zones created to attract foreign investment. The low corporate taxes, import and export duties are also economic incentives.

Water is a scare resource and has raised some issues of sustainability. Recently the local bottled water companies were forbidden to export their products, measure that will

⁶ Elaborated by the Environment Department of Dubai Municipality.

negatively affect local companies that used to export a significant part of their production^{xix}. A 5% rate is charged to all foodservice product imported to the UAE.

Bottled water industry in UAE

UAE is one of the world's largest per capita water consumers in the world, the country stands in the third place, with annual per capita consumption of 153 liters^{xx}. Sales of bottled water have experienced substantial growth given the hot climate, the rapidly growing population, and the increasing per capita income, combined with the fact that the tap water is not always safe for consumers and is not acceptable for people's tastes. The extraordinary growth in the industry is also explain by the easy market access for suppliers, an exploding expatriate community, the rising number of tourist and a fast-expanding hotel and restaurants in the Food and Beverage market. The total bottled water market in the UAE stands at around US\$155m.^{xxi}

The Bottled Water sector is mainly dominated by local production, very competitive market in terms of price and exports 30%^{xxii} of the production. The bulk 20-liters bottles delivered to residencies and offices are an important segment, representing 60% of the industry value. However, the imported bottled waters dominate the premium sectors, selling at a higher price than the local brands, valuing the international brands. It is a trend for restaurants to have a bottled water menu that offers water from all over the world. Also new high-end retailers are increasing alongside with their demand for imported water from various countries^{xxiii}.

Market Potential

Dubai is gaining a reputation for being a cosmopolitan city, a trading, financial and tourism hub. On the other hand, Abu Dhabi is developing to become a center of aerospace, defense, information technology attracting environmental and green industries, expanding beyond the petrochemical center. Dubai has the higher demand for

sparkling water in the region, representing 36% of the total demand in UAE (appendix 21), that in 2012 valued \$14,99 million. So, this work will **focus on Dubai** as the market targeted. The graph in annex 1 shows the predicted demand in the region.

Concerning the Horeca channel, there are more than 11,000^{xxiv} eating establishments in the UAE, and 500 more restaurants are added each year^{xxv}. The major food and beverage multinationals have reported significant profits in terms of margin returns.^{xxvi} Legally, only restaurants attached to a Hotel are allowed to serve alcohol. The demand for more expensive and quality restaurants is boosted by the tourism, by the American and European expatriates who have higher salaries jobs and also local upper class. Eating out is an important factor of the lifestyle, comparing with the global average (appendix 22).

There are 400 Hotels, mostly concentrated in Dubai and Abu Dhabi, where about \$2.0 billion were consumed in this foodservice sub-sector in 2007^{xxvii}, sector that represents about 40 to 50% of the establishment's revenues. In Dubai are operating 66 luxury five star hotels^{xxviii}. The increasing in tourism leads to increased demand for imported food. In each five star hotel has a minimum of 15 restaurants each.

Alongside with the hotel and restaurant market, other food and beverage service sectors are developing. The catering in Airlines is experiencing rapid growth, with the aggressive expansion of Emirates Airline and Etihad Airways. In 2008, Dubai international airport had 34 million passengers which was an increase of 9% over the previous years. In 2008, a new Terminal opened for the exclusive use of Emirates Airlines, the largest airport terminal in the world and has the capacity to deal with 60 million passengers per year.^{xxix}

The potential market in Dubai is very attractive, it is the most westernized and international city. Although Dubai has a strong demand for premium products, the market is not very large comparing with other developed markets.

The internalization plan will start by implementing the commercialization of Pedras in Dubai in the short term, being the plan for long term to expand to the other Emirates and

to the Middle East and North African countries. MENA region is one of the major contributors to the world's economy; the GDP grew in 2010 at a 12% rate^{xxx}. MENA's markets are less explored for the foreign companies, have a lower presence of international companies. Totally the sparkling water segment in 2013 is expected to represent \$283mln^{xxxii} (appendix 23). Dubai is a strategic platform to access to the other MENA markets, such as to Kuwait, Saud Arabic, Qatar and Egypt.

Competition analysis

The Bottled Water industry in UAE is very competitive. It is divided in the bulk segment⁷, bottled water mass-market segment⁸, premium and ultra-premium segment.

There are a large number of players in the mass-market still bottled water segment (appendix 24). The biggest multinationals are present in the industry: **Arwa** (Coca-Cola), **Aquafina** (PepsiCo) and **Nestlé Pure Life** (Nestlé). Yet, local companies such as **Masafi** and **Al Ain** have a strongest presence in the market, having respectively 38%⁹ and 23%¹⁰ of market share. None of these products is imported; they all are filtered and bottled locally. Regarding the mass-market consumption of sparkling water (appendix 25), a new segment lead by Oasis Blu water, the first sparking water launched in this segment, produced by a local company. It has a market share of 60% and has three different flavors and the product mission is to 'suit the need of the customers for party purposes and provides them with a refreshing and crispy feel which keep then rejuvenated and active in their hectic schedules and hot weather conditions'^{xxxii}.

Moving to the premium competition, dominated by imported brands, the market is very fragment and most of the market shares are not available. In the still water segment (appendix 26), **Evian** is the sales leader. It is important to mention that most of these

⁷ Selling 5 gallons bottles mainly through home delivery service.

⁸ Available in every retail unit.

⁹ 2009. Masafi.Super Brands. (uae.superbrandsmena.com)

¹⁰ 2007. Al Ain widens its network reach (www.alainwater.com)

brands are available in the mass retail units, even though they are premium brands. Evian has a significant 15%¹¹ market share in the retail units. Most brands belong to big global companies in the water industry, such as **Fiji**, **Acqua Panna**, **Vittel**, **Voltic** and others. In the sparkling premium segment, see annex 2, the most significant for the study's purpose, the strongest players belong to multinationals such as Danone and Nestlé. Most of the premium brands are available in the regular retail units as well as in the restaurants. The main players in this segment are **Appolinaris** (Coca-cola), **San Pelegrinno** (Nestlé), **Gerolsteiner**, **Perrier** (Nestlé) **Ty Nant**, and **Vallechiara**. **Perrier** is the evident leader holding a 65%^{xxxiii} market share, and is present in the market for a longer period of time. The other brands are fragmented in the rest the market share (more specific information is not available) and there is no evidence for a significant investment in the increase of sales. All of these brands (except Vallechiara) are marketed together with the competitor brand from the still segment from the same producer. San Pellegrino goes with the Acqua Panna, Perrier goes with Vittle, and both Appolinaris, Ty Nant and Gerolsteiner have available the sparkle and still option under the same brand.

Concerning the lighter sparking waters, in 2007 Nestlé company launched **Eau the Perrier**, a less carbonated product with the intend to capture a bigger market share in the dinning market^{xxxiv}. Recently in this year, Danone took the opportunity to rebrand **Badoit** to enter in the premium market, specifically targeting 'high-end hotel and restaurant business' a brand that was only distributed in France before. "Certainly in the premium segment it is the least carbonated sparkling water brand, which allows it to be consumed in a fine dining environment — it doesn't compete against fine haute cuisine."^{xxxv} Besides the potential opportunities in this market, Danome launched this new product as an attempt to protect margins coming from Evian, since this brand has been losing the premium position because is now considered as a typical product.

¹¹ 2008. *Water Wars* Arabian Business

The Ultra Premium segment is dominated by the products of **WaterBar**, a joint venture with an English and Emirate company, which distribute ultra premium gourmet products in the Middle East, such as Iskilde, Te Waihou, Mondariz, Tasmanian Rain and Ice Age. International brands as Voss and Gize are also present in the market. These brands are not available in the retail stores, the distribution is extremely selective and exclusive.

Consumer Trends in the UAE

The modern consumer looks for a trendy, healthier and natural source of water^{xxxvi}, which gives the industry an opportunity to differentiate and offer an added value to the consumer. Also there is present tendency to purchase organic food and beverages are far above the global average. Besides, there are evidences that the consumers did not move away from consuming the premium and higher quality products during the economic downturn^{xxxvii}.

Água das Pedras Potential

Pedras is a rare product, 100% natural, naturally carbonated, a characteristic that only 0,05% of the waters have. The product has an undoubtedly quality, that is supported and assured by the high technologic plant in Portugal. Michael Mascha, H2O sommelier author of Fine Waters, stated: ‘Água das Pedras is an unique water in the world’.

As the product cannot be produce in Dubai, it will compete in a different segment comparing with the domestic market. The product will have more value as it comes from a unique resource that is not available in the foreign country. Although an advantage can be taken from the experience from the competition in Portugal, Pedras will face a different competition dynamics with the other imported waters, rather than with the local companies. The main strength of Pedras, the quality, will remain the same. Although in the domestic market the product has a huge brand awareness that contrasts with the non-existence awareness in the new markets.

SWOT analysis for Pedras in the UAE

The SWOT analysis assesses the industry in order to build a TOWS that will generate strategies to sustain the implementation plan and allow Pedras to remain competitive.

Strengths	Opportunities
<ul style="list-style-type: none"> - High quality product, natural with no artificial gas, coming for an exclusive and differentiator resource. - International recognition, several awards won. - 140 years of experience and know-how, a product with a huge history. - Unicer is willing to provide the necessary support to the internationalization process. - Pedras will only focus on the sparkling water, contrasting with the other competitors that both offer a still and a sparkling product. - No need to make big investments on mass advertising, rather than to influence the decisions makers. 	<ul style="list-style-type: none"> - Population and income levels are growing - Dubai is an attractive tourism destiny. - Consumer trends towards the consumption of healthier, natural and organic products. - Growing awareness about the importance of mineral water and the form of consumption. - Perrier and San Pellegrino are losing the premium position. - Chose to position in a 'new' segment. - Entering in Dubai is an opportunity to enter in the MENA, fast growing consumer and huge market. - The demand of sparkling water in the UAE is expect to increase 5% a year^{xxxviii}. - The market is open to premium products, offering large margins.
Weaknesses	Threats
<ul style="list-style-type: none"> - No recognition in the foreign market as well as no networks in order to start the business. In the Arabic market, trust as relationships are very important to establish business. - Possibility of doing business with the wrong importer/distributor. - Although the overall Middle East market is huge, particularly the Dubai market is relatively small. - Absence of a zero carbon policy, as some other competitors have. - Transportation, import and distribution costs. - Do not have an after sales service. - Currency risks, outside the Euro Zone. 	<ul style="list-style-type: none"> - Industry in UAE, especially concerning the premium segment is highly competitive. The main competitors are global bottled water companies, eg: Danome and Nestlé. - There are environmental concerns about the impact of imported waters. Lobbies against the consumption of bottled water, such as the 'I drink locally' movement¹². - People are frustrated with the inflated prices that they have to pay for water bottled in the restaurant^{xxxix}. Firstly because they see the restaurant charges in some cases 2000% more than the retail price^{xl}. And also because most times the consumer does understand the value of the product.

¹² 'I drink local' is a campaign that evidences the environmental impact of consuming imported bottled water and incentives the consumption of local water. (idrinklocal.com).

TOWS analysis

SO strategies For Pedras to be recognized for its real value, it is critical to enter the market with a very concrete strategy and vision position the branding in the right segment and be able to communicate the identity of Pedras right way and gain brand awareness immediately. The marketing plan will be critical for the success of the project.

ST strategies: The cultural difference must be considered and overcome in order to communicate the perceived value of Pedras correctly. Both the relationship with the local distributor and with the critical decision makers have to be cautiously developed.

WO strategies: There is a growing tendency concerning the use and consumption of water during an exquisite meal. Pedras should develop its after sales service, in order to educate the restaurant employees about the characteristics and benefits of the product and to reinforce a loyal relationship with the brand.

WT: Pedras will have to look for the environmental policy of its main competitors and be able to develop a similar one. A Zero Carbon policy should be developed and communicated in order to face the lobbies and environmental concerns that people have related to the clean technologies.

Água das Pedras market positioning opportunity

The hypothesis of entering the mass market is excluded due to the reduced margins and the lack of capacity to produce in enormous quantities, since the spring has a production limit per year. As Pedras is a rare resource, it makes sense to be positioned in the premium segment. This strategy was the same used during the internationalization to Brazil and fits the brand identity that has been developed during the past years. Yet, actually the premium segment in Dubai is becoming more and more accessible and common, as the brands positioned in this segment are available in every retail unit, as for example Perrier, the biggest competitor. Other option would be to position in the ultra premium segment, but it does not fit with the brand identity, and besides, in Portugal the

product is consumed has a commodity. Taking in consideration the competitors scenario and the consumer trends, the best option would be for Pedras to position itself between the premium segment and ultra premium, in the **Upper Premium Segment**. Given the previous study on the market, it can be concluded that there is a gap in the position of the sparkling waters, which is the opportunity for Pedras. The market opportunity is to be in the Upper segment premium, in-between the premium and ultra premium where no brand is yet positioned. Pedras will not be available in the common retail units, but will be accessible to niche markets, such as in the high-end restaurants, hotels and gourmet and organic groceries. Pedras will be positioned as a unique and natural product to be consumed during an exquisite meal, competing directly with the wine industry and other drinks that accompany a meal.

Modes of Entry

The mode of entry is critical in the success of the internationalization process, so all alternatives must be considered. The choice of the right mode depends on several factors such as the political and legal environment, cultural environmental, market size, production and shipping costs, international experience, etc. Pedras's internationalization process will always be the exporting of products produced in the home country because, legally, water must be bottled at the spring. UAE has one of the most open trade policies of the regions, forbidding only few imports, mainly due to the health issues mainly. So the entering barriers are low, since is relative easy to start up a business. However, if the trading company is not national registered, the legislation requires a local agent / distributor to sell the imported goods^{xli}.

The mode of entry export can be made by intermediaries – indirect or direct export, or by the company itself – own export. This last option can be automatically eliminated because is mandatory for a foreign company to be embodied by a local representative. The

company could choose to export indirectly, which mean that will not negotiate and be in contact with foreign distributors. The risks are minor, however the control over the operations is also lower and the company will not have the chance to fully explore the market opportunities. As in the company strategic objectives there is committed and willing to take some risks in the project, these would not be the best decision.

If the company chooses to export directly, they will have to contact the intermediates, such as brokers, importers agents, retailers... These export option is much riskier, requires organizational resources responsible for the process, however the company is very involved which results in more control, shorter distribution channels and smaller distribution costs, and a bigger potential return.

Considering the contractual entry modes, another form of entering in a market could be joining another company in the local market, for example, through a franchising or licensing. Less capital and less commitment are required; nonetheless partners are not used to make business with each other. This implies sharing control with the other part, although the partnership may allow greater access to local knowledge. However it requires lending the strategic property and loose flexibility, and also the strategy is not very common in the case of exporting a finished product.

The last hypothesis is to make a direct investment, for example starting a business with a Joint Venture¹³. This implies a greater potential returns, however a bigger risk in involved. Water Bar is a JV that commercializes some of the ultra premium bottled water in the UAE. Nevertheless this company was founded not only to have activity in the UAE, but to commercialize to England and to other regions of the world due to tax benefits. A JV implies a high level of compromise consumes a lot of time and effort to build the right relationship and due to different management styles is probable that problems arise.

¹³ It is mandatory to have a local equity participation of least 51 percent.

The best practice in the industry is **exporting directly with the support of a local distributor/agent**. Except from the Water Bar products, the others premium bottled waters companies use a local distributor to commercialize its products. For Pedras, this is also the strategy to be adopted, since all of the other alternatives were excluded in the previous segment.

Implementation plan

1. Choosing a representative

There are different types of traders in the Food & Beverage supply chain^{xlii}. A **wholesaler/importer** that has the main responsible for direct import, warehousing, sometimes distribute to the local market, and deal with the paper work. They might export to other regions, but never directly to a retail location. The **distributors/agents** are in charge for storing, take care of logistics and transport, deal with the paper work, supplying to the retail and industry (hotels, restaurants, airlines, catering companies) and depending on the level of responsibility, they might provide sales and marketing support service, being the ambassadors of brands. Finally **brokers** usually represent several companies and do not have ownership interests. They work based on a commission and use a distributor, however this business partnership is not common in the UAE.

Although there are different titles for the intermediates, they execute the same functions. What matters the most in the choice is understanding the trader's services, their reputation, understand the potential representatives, key customers and relationships and product range carefully and opt for the one that most fit with Pedras's needs. Based on several interviews^{xliii}, the trader will expect to work with a profitable and good product. They will expect Pedras to meet in person and to develop a great communication and team work and also to access the product marketing plan and characteristics. The first years will determinate the success and the market penetration stage is essential. Although the major distributor/importer could ask for a higher margin, the investment will

compensate since the market is very network dependent and the right distributor will have a better access and experience in the market. Eventually, an agreement can be made for the first 5 years, and after it, Pedras can rethink in partnership, and choose to change for a less expensive distributor.

Option 1: An agreement with the Water Bar JV could be considered, assuring the commercialization of the product. However, the products distributed by this company are in the ultra-premium segment which is not what Pedras pretends as its strategy. Water Bar only has access to highly exclusive channels, which is not Pedras's strategy.

Option 2: The strategy performed in Brazil, using a wine distributor, is not viable in the UAE because it will not target all of the selling points desired. That is, due to the legal alcoholic consumption restrictions, the wine distributes only on the establishments in the hotels that have a license. In order for Pedras to be accessible pretended establishments, the distributor used should have a larger portfolio range.

Option 3 & 4: Horeca Trade and Gulfco, that distribute both San Pellegrino, Perrier and other premium waters, could be an option because they have a lot of knowledge and contacts in the market. However they probably have exclusivity contracts and this new agreement would cannibalize sales, so there would not be an incentive to promote Pedras.

Option 5: Fiji water, does not compete in the sparkling segment, and adopted more less the same positioning as Pedras. The distributor is **NTDE**¹⁴ has a gourmet portfolio that includes, for example, Häagen Dazs. They have about 7,000 customers, including hypermarkets, wholesalers, airlines, hotel chains, duty free, restaurants, and convenience and grocery stores across the UAE, which include the selling points aimed for the brand. The main distributor center is in Dubai. However they have operations in the Gulf area, which is an advantage for Pedras, thinking in the Middle East geographical expansion.^{xliv} To NTDE the partnership will be an opportunity to strength the premium

¹⁴ National Trading & Developing Est.

water offer, since they do not have any sparkling product. **To make an agreement with NTDE is the recommend strategy.**

2. Marketing plan

A bottle of water is a product that might seem difficult to distinguish, as it does not have any odor, any color and the taste can be similar and the switching cost is low. However, the industry is very competitive and found innovative ways to differentiate the product, such as designed bottled, flavored waters, vitamin waters, waters with a charity purpose and others. The marketing plan is essential to differentiate and face the competitors.

Placement strategy: As Pedras aims to be positioned in the Upper Premium, rather than on the premium segment, the distribution channels are an important part of the marketing strategy. The target of Pedras will be the clients from **5 hotels stars, high-end restaurants, gourmet and organic food stores** and that travel in the executive in the **MENA Airlines**. The major objective is to position Pedras close to the gastronomy world, mainly in restaurants establishments. The placement in the food stores would be a complement not a priority, in order to raise brand awareness and increase brand loyalty.

Product strategy: Concerning the selection of the firm's product line, the best approach is to focus only on products that suit better the market opportunity, excluding the internationalization of Levíssima and Sabores. Pedras is the main brand in the portfolio with 140 years of history, and the most successful in the domestic market. Levíssima does not transmit the brand character, and is going to be discontinued in the domestic market due to lack of success. The market for lightly sparkle waters is much smaller, and has already some strong players, such as Eau the Perrier and Badoit. The hypothesis of exporting Pedras Sabores is excluded in the short and medium run because the main objective would be to target the high-end restaurants that offer a drink to go with a sophisticated meal, and flavored waters are not an option. To use PET packages would undermine the upper premium position pretended, particularly in the high-end

restaurants, so only glass bottles will be exported. Considering the changes in the package, some investments should be made. The information must be available both in English and in Arab, accordingly to the labeling requirements (appendix 27).

Pricing strategy: The price plays an important role in the perception of the product quality and also in the number of sales, as it predicts the value added. A characteristic of the premium segment is that the client does not care much about it, they tend not to be so price conscious. In fact, it can happen that the higher the price, the greater is the purchase probability. As Pedras will not be sold in the ordinary retail units, the prices in the Horeca channel should be analyzed. As we discussed before, Pedras will be positioned in the Upper Premium segment, so the price will have to be an average between premium and ultra premium segments. We considered Perrier and Voss as references for each segment, so the recommended price for a 1L of Pedras will be 36Dh¹⁵(appendix 28).

Promotion strategy: In order to be able to offer the product to the consumers, the product must be sold in the desired places. Identify people that the influence and chose what products are distributed is essential. In the food service channel, chefs used to be the decision-makers; however the decision is now shared with food and beverages managers, purchasing departments and sommeliers. In the retail channel, especially in the gourmet segment, the decision makers are the purchasing department, category manager and food specialist. The decisions-makers look for the quality, reputation and integrity of the product and value long term relations. They look for information about the product, for example, in a document that is delivered, and also during the trader visits. Although price is not a critical decision factor, they expect to value the product. Particularly in UAE, the product promotions in trade fairs and the participation in events gather the decision makers and are an important vehicle for the trader to be in contact with the decision makers (appendix 29). For example, Gulfood is a good platform to present the

¹⁵ About 35% over the Perrier price.

product to up to 37,000 buyers and influencers that visit the event annually for exposure to new products. Since the brand identity in the domestic market is investing in premium and sophisticated image, most of the marketing resources can be adapted to Dubai, leveraging the recently big investments made in the brand. As Dubai has a ‘western culture’, Daniela Ruah¹⁶ is recognized in the region as an international Hollywood star, which transmits exactly the brand core image. Besides, Trysumerism¹⁷ is a present trend in Dubai^{xlv}. The consumer is open to try new products and is not so influenced by the mainstream advertising. The word of mouth along with the social network play an important role in buying decisions. This strategy is more efficient because it targets directly the consumers and does not requires investments as big as mass advertising.

Services Offered: As mentioned in the TOWS analysis, the company will have to develop a service to differentiate the product. The central objective is to have a channel, e.g.: a blog, to transmit information and collect feedback from mainly the retailers to Pedras. The goal is to be able to support the restaurants to sell the product, answer to doubts about the product characteristics for example, and also to use the feedback to adjust the communication and marketing tactics. Regarding the final consumers, they should not be involved with the brand only on the consumption moment. Being part of initiatives and creating activities related with the gourmet world, Pedras will have the opportunity to engage consumer, and so increase loyalty and reputation rates. More than selling bottled water, it is important to sell an experience and a lifestyle.

3. Resources necessary: 4M's approach

To get a better understanding how the firm will allocate its resources, the 4 M's theoretical plan will be applied, considering the four success factors in a small business:

Men: Considering the Human Resources, the company will have to allocate some

¹⁶ Portuguese actress with an international career, that at the present the brand ambassador.

¹⁷ New concept meaning the experience before purchasing.

collaborators in the Portuguese office responsible for the business in Dubai to represent Pedras interests and gain knowledge in the foreign market. As it was mentioned before, personal contact is very important for the business performance in the Middle East, so it is critical to have a responsible that visits regularly and deals directly with the distributor in foreign market.

Money: The initial investment will include essentially the marketing investments, starting in the first year with 500.000 €, and that budget will be gradually reduced in 20% over the years. The money will be used in annual fairs and networking, negotiations and visits to distributors and to advertising campaigns and marketing material. The objective is to create brand awareness in the target pretended. The other significant expenditures are the transportation and licensing costs. The financial forecast expects a negative profit in the first year, however the investment is recovered in the second years and revenues will gradually increase (appendix 30).

Minute:

	Jan	Fev	Mar	Apr	May	Jun	Jul	Aug	Set	Oct	Nov	Dec
Internal validation&development												
Market study: consumer insight and predicted sales												
Final Business Plan												
Board approval + Nominate a Dubai Manager												
Field Activation												
Legal certifications												
Proposals to distributors												
Meet and negotiate with potential distributors												
Distributor agreement												
1st shipment												
Marketing Plan execution												
PR campaign												
Preparing marketing material												
Trade shows												
Local partners networking and contacts												
Local partners agreements												
Launching event + Web Site Launch												
Sales Force training												
Instore training												

Memos:

	Objectives	Measurement	Target	Initiative
Financial	Increase revenues Increase the number of clients.	Profitability Number of clients Turnover.	Positive revenues in the second year.	Choose the distributor that will match with Pedras profile.
Customers	Became a reference in the premium sparked bottled water segment.	Increased of sales on Horeca channel and feedback from the waiters. Market research.	25% awareness in the target public, at the end of year 1.	Invest in the promotions fairs. Train store employees about the water quality and accompaniment of a meal.
Internal	Allocate HR to the business in the Middle East.	Number of conflicts/ problems with the distributor.	HR in Portugal.	Visit the distributor.
Learning	Test the product and the brand before the implementation.	Quantitative and qualitative feedback.	Both tourists that came to Dubai and local population that go to high-end restaurants.	Perform a market study to get consumer insights.

The major risks concerning the success of the implementation are the cultural difference, as well as the government's attitude. Firstly, there is a possibility to not be able to execute the business model, due to lack of consent with the local representative. I might happen that Pedras is not well accepted in the target public, and the positioning strategy fails. The juridical and political issues should be also considered, the government outlook and the legislation over the importation activities could obstruct Pedras to export to Dubai.

Conclusions and Recommendations

After the analysis of the company, it can be concluded that Água das Pedras is ready to continue the internationalization process, being able to offer a significant competitive advantage. The study of the market concluded that there is gap where Pedras has an opportunity: Upper Premium Segment. Entering in Dubai will be the first step before the expansion to the Middle East, where there are many opportunities and represent a greater total market is bigger. The target will be 5 stars hotels, high-end restaurants, gourmet and organic food stores and MENA region Airlines. Pedras would enter with a support of a

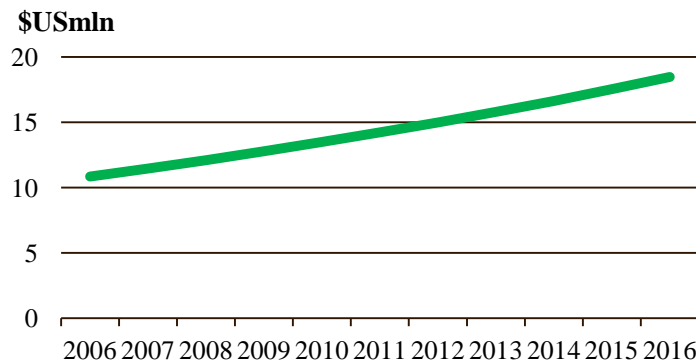
local representative, in order to have the experience and networking competences necessary. Nevertheless, the Bottle Water industry is very competitive; meaning that Pedras will be able to surpass the challenges if they invest in a strong marketing plan.

In order to surpass the challenges, some critical issues must be properly addressed. First of all, the financial situation should be excellent because internationalization is time-consuming and costly. Then, the relationship with the representative must be cultivated with regular visits, as Pedras is highly dependent on the local agency. Other suggestion is that Pedras should not only be limited to selling its product, but rather to develop an after sales program: interacting with the retailers, so that they believe in the product they are selling, and also involving the final consumers with the brand identity, transmitting a lifestyle. Also, concerning the glass bottles, the image should be rethought so that it can communicate more of a premium feeling. The package is a critical factor that influences the purchase, the design works as an indicator of quality. Pedras could launch a special edition bottle in order to help to raise awareness and clients. The success in Dubai will leverage the expansion to other Emirates and MENA countries, aggregation a significant volume in sales and will be important to gain experience doing business in the region.

The next stage would be to perform a market research in order to confirm the willingness for the target clients to consume Pedras, with the planned positioning and price.

The findings and recommendations of this work project are limited to the information available and its reliability, both given by the company and researched. One of the main challenges was to find information and data on the Bottle Water industry in the UAE.

Annex 1: Demand for Sparkling Water in UAE



Source: Parker, Philip M. 2010. The 2011-2016 World Outlook for Sparkling Mineral Water INSEAD, ICON Group International, Inc.

Annex 2: Players in the Premium Sparkling Bottled Water Segment

	Price EUR	Price AED	Origin	Company	Distributor
Apollinaris	2,34	11,11	Germany	Coca-Cola Co.	Trubell Marketing and Trading LLC
Badoit	2,34	11,11	France	Danone (Evian Volvic Export department)	Horeca Trade LLC
Gerolsteiner	2,88	13,67	Germany	Gerolsteiner Brunnen GmbH & Co.	Modern Bakery LLC
Perrier	1,80	8,56	France	Nestlé - Perrier Vittel Middle East Investments FZCO	Gulfco
Eau de Perrier	1,89	9,00	France	Nestlé - Perrier Vittel Middle East Investments FZCO	Gulfco
San Pellegrino	3,16	15,00	Italy	Nestlé	Horeca Trade LLC
Ty nant	2,53	12,00	Wales, UK	Ty Nant Spring Water Ltd	Aquarius Middle East FZCO
Vallechiara	1,39	6,58	Italy	Terme Vallenchiara SPA	Italica General Trading LLC

Source:

www.earlybird.ae; www.apollinaris.de; www.horecatrade.com; www.gerolsteiner.com; www.al-majid.com; www.tynant.com; www.fontevallechiara.com.

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